

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00  
SS-15 SP-02 L-03 H-01 NSC-05 PA-01 PRS-01 CIAE-00  
INR-07 NSAE-00 COME-00 FRB-03 OPIC-03 XMB-02 TRSE-00  
OMB-01 CEA-01 STR-04 AGRE-00 /070 W  
-----081810Z 074569 /53

O 081624Z MAR 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 9255

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 1750

E.O.11652: GDS

TAGS: EGEN, MARR, SP, PFOR, EFIN

SUBJECT: AGENDA FOR JOINT ECONOMIC COMMITTEE MEETING

REF: STATE 43753, MADRID 1363 1372,1690

1. THE SPANISH GOVERNMENT IS PLACING CONSIDERABLE IMPORTANCE ON THE FIRST MEETING OF THE JOINT ECONOMIC COMMITTEE TO BE HELD ON MARCH 14. THE SPANISH HOPE TO ESTABLISH A PATTERN OF CONSULATATIONS IN WHICH INDIVIDUAL BILATERAL ECONOMIC PROBLEMS CAN BE LOOKED AT TOGETHER IN THE BROADER CONTEXTS OF SPAIN'S LARGE TRADE DEPOSIT WITH THE U.S. OF BROADER POLITICAL CONSIDERATIONS, AND OF THE SPECIAL RELATIONSHIP WITH THE U.S. ESTABLISHED BY THE TREATY OF FRIENDSHIP AND COOPERATION. THE SPANISH WILL EMPHASIZE THAT WHILE IN THE SUPPLEMENTARY AGREEMENT TO THE TREATY BOTH COUNTRIES AGREED TO SEEK TO AVOID RESTRICTIONS ON TRADE, THE IMPRESSION FROM A SERIES OF US ACTIONS IS THAT WE ARE IMPOSING OR THREATENING RESTRICTIONS WHICH COULD CAUSE SERIOUS POLITICAL AND SOCIAL AS WELL AS ECONOMIC PROBLEMS AT A TIME WHEN SPAIN IS IN A DELICATE PROCESS OF POLITICAL EVOLUTION. THEY REALIZE THAT THE PROBLEMS TO BE CONSIDERED CANNOT BE RESOLVED BY COMMITTEE DIS-  
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CUSSION AND CANNOT EVEN BE DEALT WITH IN DETAIL IN A CONDENSED ONE DAY MEETING. NEVERTHELESS, THEY PLACE GREAT IMPORTANCE ON THE MEETING PRODUCING A JOINT COMMITTEE REPORT ON OUR BILATERAL ECONOMIC RELATIONS WHICH WOULD FO FORWARD FOR CONSIDERATION AT THE FOREIGN MINISTER LEVEL DURING THE NEST MEETING OF THE US SPANISH COUNCIL. SUCH A REPORT TO BE SUBMITTED THROUGH THE

PERMANENT SECRETARIAT OF THE COUNCIL, IS FORESEEN IN THE PROCEDURAL GUIDELINES FOR THE JOINT ECONOMIC COMMITTEE. THIS REPORT WILL BE PREPARED IN THE DAYS AFTER THE MEETING AND WILL BE SUBMITTED TO BOTH GOVERNMENTS FOR APPROVAL BEFORE FORWARDING TO THE PERMANENT SECRETARIAT.

2. IN GENERAL THE U.S. AIM SHOULD BE TO ASSURE THE SPANISH THAT WE TAKE THEIR PROBLEMS AND CONCERNS SERIOUSLY, THAT WE IN NO WAY DISCRIMINATE AGAINST SPAIN IN TRADE OR OTHER ECONOMIC MATTERS. AND THAT DESPITE SPECIFIC PROBLEMS THE OVERALL IMPACT OF OUR BILATERAL ECONOMIC RELATIONS IS BENEFICIAL TO BOTH COUNTRIES.

3. FOLLOWING ARE EMBASSY COMMENTS ON AGENDA ITEMS. INCLUDING EXPECTED SPANISH POSITION AND RECOMMENDED U.S. APPROACH.

4. AGENDA ITEM I. THE SPANISH WOULD BE INTERESTED IN A BRIEF EXPOSITION OF THE CURRENT THRUST OF U.S. FOREIGN ECONOMIC POLICY. IT WOULD PRESENT AN OPPORTUNITY TO EMPHASIZE OUR DEDICATION TO AN OPEN WORLD TRADING COMMUNITY AND OUR COMMITMENT TO MOVE FORWARD IN MULTILATERAL TRADE NEGOTIATIONS TO REMOVE TRADE RESTRICTIONS. COMMENTS IN THIS VEIN WOULD HELP ALLAY APPREHENSION THAT PROTECTIONIST SENTIMENT IS INCREASING IN THE U.S. WOULD EMPHASIZE MULTILATERAL U.S. APPROACH TO TRADE ISSUES RATHER THAN BILATERAL BALANCING, AND WOULD

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PROVIDE OPPORTUNITY TO MENTION ANY OTHER MULTILATERAL ECONOMIC ISSUES. U.S. ATTEMPTS TO ENCOURAGE CONCERTED EXPANSION OF MAJOR WORLD ECONOMIES, WITH CONSEQUENTIAL BENEFICIAL EFFECTS ON OTHER ECONOMIES. SHOULD ALSO BE STRESSED. THIS IS THE MOST POSITIVE THING WE WILL HAVE TO SAY IN TERMS OF OVERALL EFFECT EMBASSY BELIEVES, AND GOS FOMINISTRY AGREES, THAT WITH THESE COMMENTS ON U.S. ECONOMIC POLICY, ITEM VI CAN BE STRICKEN FROM ALREADY LENGTHY AGENDA FOR ONE DAY MEETING.

5. AGENDA ITEM II. AS EMBASSY HAS REPORTED, THE GOS BELIEVES THAT FOR POLITICAL REASONS IT MUST DELAY ACTION TO REDUCE INFLATION AND ITS EXTERNAL DEFICIT, AND THAT IT STILL HAS THE RESERVE CUSHION AND CREDITWORTHINESS TO DELAY CORRECTIVE MEASURES. HOWEVER, IN THE ABSENCE OF A COHERENT STABILIZATION PROGRAM THESE PROBLEMS ARE LIKELY TO WORSEN AND TO BE NOT EASILY DIGESTIBLE FOR A DEMOCRATICALLY ELECTED GOVERNMENT. THE U.S. DELEGATION

SHOULD NOT SEEM TO PASS JUDGMENT ON POLITICAL FACTS.  
BUT MAY WISH TO NOTE THAT CLEARLY CORRECTIVE ACTION WILL  
BE NEEDED. THAT FROM A PURELY ECONOMIC POINT OF VIEW  
THE SOONER THE BETTER, AND THAT EARLY IMF INVOLVEMENT  
IS DESIRABLE SINCE INTERNATIONAL CREDITORS WILL TAKE ITS  
VIEWS STRONGLY INTO ACCOUNT.

6. AGENDA ITEM III. THIS ITEM IS TO EMPHASIZE THAT IN  
CONSIDERING RELATIVE EQUILIBRIUM IN BILATERAL ECONOMIC  
RELATIONS, IT IS NECESSARY TO CONSIDER PAYMENT FLOWS  
BEYOND THOSE IN THE TRADE ACCOUNT AND MEASURES SPAIN  
MIGHT TAKE TO ENCOURAGE SUCH FLOWS.

A. THE LAST DATA AVAILABLE ON US SPANISH BILATERAL  
BALANCE OF PAYMENTS WERE FOR 1975 (76 MADRID 2234) WHICH  
SHOWED SPAIN'S BASIC BALANCE WITH THE U.S. IN DEFICIT BY  
\$376 MILLION COMPARED WITH A TRADE DEFICIT OF \$1.6  
BILLION , AND THAT IN 1974 SPAIN RAN BILATERAL BASIC  
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BALANCE SURPLUS OF \$8 MILLION. SIMILAR DATA FOR 1976  
WILL NOT BE AVAILABLE BEFORE THE END OF MARCH.

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SS-15 L-03 H-01 NSC-05 PRS-01  
CIAE-00 INR-07 NSAE-00 COME-00 FRB-03 OPIC-03 XMB-02  
TRSE-00 SP-02 SSO-00 NSCE-00 INRE-00 USIE-00 PA-01  
OMB-01 CEA-01 STR-04 AGRE-00 /070 W  
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O 081624Z MAR 77

FM AMEMBASSY MADRID

TO SECSTATE WASHDC IMMEDIATE 9256

C O N F I D E N T I A L SECTION 2 OF 2 MADRID 1750

B. THE GOS CAN BE EXPECTED TO OUTLINE MEASURES  
TAKEN AT THE END OF 1976 TO FACILITATE THE ENTRY OF  
NEW FOREIGN INVESTMENT INTO SPAIN (MADRID A-08, JAN. 31,  
1977).

C. THE GOS IS NOT INTERESTED IN HAVING DISCUSSION OF EX-IM BANK ACTIVITY ON THE AGENDA. HOWEVER, WE MAY STILL WANT TO ALLUDE TO THE ROLE WX-IM IS PLAYING IN FINANCING THE MOVEMENT OF U. S. CAPITAL GOODS TO SPAIN.

D. SEVERAL U.S. AS WELL AS OTHER FOREIGN BANKS WITH OFFICES IN MADRID ARE INTERESTED IN ESTABLISHING COMMERCIAL BANKING FACILITIES IN SPAIN. THE GOS HAS FOR SOME TIME BEEN PUBLICLY CONSIDERING A CHANGE IN ITS BANKING LAWS TO PERMIT THIS IN SPITE OF RESISTANCE FROM THE SPANISH BANKING COMMUNITY. THE U.S. CAN APPROPRIATELY INQUIRE ABOUT CURRENT GOS PLANS TO APPROVE LICENSES FOR US BANKS, MENTIONING THAT INTRODUCTION OF INTERNATIONAL BANKING FACILITIES SHOULD ENCOURAGE TRADE AND THE FLOW OF INVESTMENT CAPITAL.

E. US AND SPANISH DOUBLE TAXATION NEGOTIATORS WILL MEET IN MADRID MARCH 21 FOR THE LATEST SEMIANNUAL ROUND OF TREATY NEGOTIATIONS. WE FEEL THAT THERE IS INADEQUATE INTEREST ON THE SPANISH SIDE, AT THE POLITICAL LEVEL, IN ACHIEVING AGREEMENT ON A DOUBLE TAXATION AGREEMENT. SEVERAL KEY SPANISH POSITIONS, SUCH AS CONFIDENTIAL

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ON U.S. TAXATION OF U.S. CITIZENS IN SPAIN, IN EFFECT CALL FOR UNACCEPTABLE FUNDAMENTAL CHANGES IN U.S. TAX LAW.

7. AGENDA ITEM IV. BILATERAL TRADE ISSUES.

A. QUANTITATIVE RESTRICTIONS. SPAIN IS CONCERNED WITH US QUOTAS ON STAINLESS STEEL AND WITH ITC DETERMINATION NOW BEFORE THE PRESIDENT RECOMMENDING A QUOTA/INCREASED TARIFF ON SHOE IMPORTS FROM SPAIN. SHOES ARE SPAIN'S LEADING EXPORT TO THE U.S., ABOUT 25 PERCENT OF THE TOTAL. EMBASSY RECOMMENDS THAT WE EMPHASIZE THE PAUCITY OF U.S. QUANTITATIVE RESTRICTIONS IMPOSED, DESPITE CLAIMS OF INJURY FORTHCOMING FROM U.S. INDUSTRY, AND THE CARE WE EXERCISE IN INVESTIGATIONS AND HEARINGS TO MINIMIZE RESTRICTIONS TO TRADE. WE CAN REITERATE OUR INTEREST IN REDUCING TRADE RESTRICTIONS THROUGH MULTILATERAL NEGOTIATIONS AND OUR AWARENESS OF THE POLITICAL, SOCIAL, AND ECONOMIC RAMIFICATIONS OF ANY RESTRICTIVE MEASURES. AT THE SAME TIME, THE U.S. MUST OPERATE WITHIN LIMITS OF U.S. LAWS AFFECTING FOREIGN COMMERCE AND MUST BEAR IN MIND THE INTERESTS OF ITS DOMESTIC INDUSTRY.

B. REBATES AND COUNTERVAILING DUTIES. THE SPANISH CONTEST THE U.S. TREASURY DETERMINATION THAT ALL OR PART OF SPANISH TAX REBATES FOR EXPORTS CONSTITUTE A BOUNTY OR GRANT. WE HAVE ALREADY PLACED COUNTERVAILING DUTIES ON SHOES, BOTTLED OLIVES AND VITAMIN K AND ARE INVESTIGATING ALL LEGATIONS OF SPANISH

SUBSIDIES ON EXPORTS OF ZINC AND CHAINS. SINCE THE IMPOSITION OF COUNTERVAILING DUTIES ON SHOES AND BOTTLED OLIVES, THE GOS HAS TAKEN THE POSITION THAT ITS BEST INTERESTS ARE NOT SERVED BY PROVIDING INFORMATION TO ASSIST THE U.S. IN DETERMINING WHAT PORTION OF THE SPANISH TAX REBATE IS COUNTERVAILABLE AS A SUBSIDY. THE GOS SHOULD BE ENCOURAGED TO PROVIDE THE FULLEST POSSIBLE INFORMATION TO THE U.S. TREASURY, CONFIDENTIAL

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PARTICULARLY IN THE PENDING CASES OF ZINC AND CHAINS IN ORDER TO MINIMIZE, OR POSSIBLY AVOID, A COUNTERVAILING DUTY. DURING THE JANUARY 1977 MEETING IN MADRID, DEPUTY ASSISTANT SECRETARY OF TREASURY SUCHMAN HAD A USEFUL EXCHANGE OF VIEWS WITH GOS OFFICIALS. HOWEVER, THE SPANISH GOVT. HAS NOT COMMITTED ITSELF TO PROVIDING INFORMATION ON TAX REBATES THAT WOULD BE HELPFUL TO TREASURY IN MAKING AN ACCURATE AND EQUITABLE DETERMINATION. WE SHOULD EMPHASIZE THAT THE U.S. WILL BE AS FAIR AS POSSIBLE IN INVESTIGATING CHARGES BY AMERICAN INDUSTRY THAT SPANISH EXPORTS ARE SUBSIDIZED, BUT TO DO SO REQUIRES GOS COOPERATION TO MEET THE REQUIREMENTS OF THE U.S. TRADE ACT. THE GOS MAY COUNTER BY CLAIMING THAT THE U.S. DIC SYSTEM, BY DEFERRING INDEFINITELY CERTAIN TAXES FOR EXPORTERS, IS A SUBSIDY THAT APPLIES TO MOST U.S. EXPORTS.

C. REGARDING FDA REGULATIONS, THE SPANISH BELIEVE THAT ACIDITY REQUIREMENTS ON CANNED PIMENTOS AND TOMATOES AS WELL AS LABELLING REQUIREMENTS ON SPANISH WINES ARE, IN REALITY, INDIRECT IMPORT RESTRICTION MEASURES. THE U.S. CAN ONLY OFFER TO PROVIDE ALL INFORMATION TO ASSIST SPANISH INDUSTRY IN MEETING U.S. PUBLIC HEALTH REQUIREMENTS.

8. AGENDA ITEM V. FISHING. BY MARCH 14, NOTES SHOULD HAVE BEEN EXCHANGED BRINGING THE US-SPANISH GIFA INTO EFFECT AND ELIGIBLE SPANISH FISHING BOATS SHOULD BE LICENSED. THE GOS IS STILL CONCERNED WITH THE LEVEL OF ALLOWABLE SQUID CATCH IT IS LIKELY TO BE AWARDED. THE GOS SHOULD BE ENCOURAGED TO CONTINUE ITS DISCUSSION WITH THE REGIONAL COUNCIL TO EXPLORE MEANS OF MAXIMIZING ITS ALLOTTED CATCH. EATON

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## Message Attributes

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